

Chapter 15

FINANCING PUBLIC TRANSPORTATION

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Since World War II, the financing of public transportation systems in the United States has become increasingly the responsibility of the federal, state, and local governments and special governmental agencies. In 1945, only 2% of the nation's transit systems and 16% of all transit vehicles were owned by governmental agencies, whereas in 1985 some 30% of the systems and 80% of the vehicles were publicly owned. And while passenger and other revenues covered virtually all the operating expenses of transit systems in the 1940s, almost 60% of total transit revenues in the late 1980s came from public operating assistance funds provided at the federal, state, and local levels.¹

In the early part of this century, governmental involvement in public transit was limited to regulatory activities. Local governments awarded exclusive operating franchises to streetcar and bus companies in return for their commitment to maintain prescribed fare and service levels. As increasing automobile ownership and low-density suburban development eroded the market for transit after World War I, the financial condition of these private transit monopolies gradually deteriorated, in large part because local authorities would neither approve fare increases and service cutbacks requested by transit managers nor directly subsidize unprofitable services that they insisted should continue to be provided. These policies led many private transit firms to defer capital maintenance and replacement, and eventually to relinquish their financial participation in the urban transit systems by agreeing to public buy outs. This cycle was repeated after World War II.

The financial involvement of governments in mass transit grew initially out of concerns that the deteriorating capital equipment of the private transit companies might lead to the abandonment of much of the existing service structure. The federal Urban Mass Transportation Act of 1964 created a discretionary capital assistance

program that provided up to two-thirds (later increased to 80%) of the funds for upgrading transit capital equipment. With the aid of these federal funds, city after city purchased the assets of its private transit company and established a public transit authority. These authorities were directed to offer services and fare structures prescribed by local decision makers, resulting in annual operating deficits that had to be covered by public funds. In the larger cities, public ownership and subsidies often predated federal involvement, with state and local governments providing the funding.

In 1974 the federal government began to provide operating as well as capital assistance for transit, and state and local governments gradually increased their financial contributions to match federal funds and to provide additional capital and operating funds. Total public operating assistance increased steadily from \$1.4 billion in 1975 to \$9 billion in 1988. Of total industry revenues of \$15.4 billion in 1988, 36% came from passengers, 6% came from other operating revenues, 52% came from state and local operating assistance, and 6% came from federal operating assistance.²

The nation's public transit systems face a number of major financing challenges over the coming decade. The federal role in financing transit has declined during the 1980s, and the prospects for reversing that decline with the reauthorization of the federal Surface Transportation Act in 1991 are rather uncertain. Although state and local governments have increased their shares of transit assistance as the shares supported by the federal government and farebox revenues have declined, it is not at all clear that this trend can be sustained nationwide. And perhaps most importantly, the growth in suburb-to-suburb travel, especially since the early 1980s, has contributed to a decline in the share of trips served by radial fixed-route transit systems and focused attention on other more flexible forms of public transportation, such as minibuses, organized car- and vanpools, shared taxi, and dial-a-ride systems. This chapter briefly reviews current financing programs, identifies some key issues that need to be addressed, and discusses the prospects for developing more effective financing strategies for public transportation systems in the future.

REVIEW OF CURRENT FINANCING PROGRAMS

The financing of public transportation is currently undergoing significant change as the federal government is redirecting and reducing its role. Its declining participation is expected to be replaced by state, local, and private sector support.

CHANGING FUNDING SOURCES

The most striking trend in the financial structure in the nation's public transit systems since the 1960s has been the declining share of total operating revenues contributed by passenger fares. From almost complete reliance on passenger fares in 1960, the transit industry has seen the percentage of transit revenues attributed to

passenger fares decline steadily to around 54% in 1975, 39% in 1980, and 36% in 1988. This shift has been accompanied by a steady increase in the number and scope of governmental mandates on the recipients of public funds and a growing orientation of transit managers toward the requirements of government funding agencies along with traditional obligations to the interests of transit passengers.

Transit funding recipients and managers now have to conform to a range of planning, programming, and reporting procedures, to specifications on vehicles and other capital acquisitions, to reduced off-peak fare provisions for the elderly, to the provision of specialized services for disabled persons unable to use conventional services, and, under the federal assistance program, to labor protection requirements precluding any worsening of the conditions of transit workers. The Americans with Disabilities Act of 1990, though not directly related to transit funding programs, will require transit agencies to make their services fully accessible to disabled persons, as well as to provide paratransit services for those unable to use accessible transit. All these mandates have had significant implications for the costs of transit services, although these costs have rarely been fully quantified or related to the levels of government assistance being provided.

A second significant trend has been the decline since the early 1980s in the level and percentage of operating assistance provided by the federal government. Federal operating assistance peaked in 1981 at \$1.095 billion and 17.3% of operating revenues and had declined by 1988 to \$950 million and 6.2% of operating revenues. This decline was part of a general cutback in funding for domestic programs by the federal government and will be difficult to reverse in the face of the federal budget pressures that are currently projected for the early 1990s.

INCREASED STATE AND LOCAL SUPPORT

As federal operating assistance has declined, however, state and local assistance has increased. The notable trend in this regard has been the growing role of state governments, many of which had been concerned solely with highway programs until well into the 1970s.³ According to the most recent report by the American Association of State Highway and Transportation Officials (AASHTO),^{4,5} 39 of the 50 states had subsidy programs in 1989, and the total financial commitment of the states of \$4.2 billion substantially exceeded the \$3.2 billion provided by the federal government. Whereas many of the states entered into transit assistance initially to fill the growing gap between transit revenues and costs, most have now developed proactive assistance programs with their own mandates and requirements. The states have also become increasingly active in the provision of technical assistance to their transit systems and in the monitoring of their financial and operating performance. The states have drawn for their financial assistance programs on a wide variety of revenue sources, including general revenues, sales taxes, fuel taxes, lottery proceeds, and turnpike revenues.

Local government operating and capital assistance is provided almost everywhere (except in a few states that generally operate transit themselves). A wide variety of local revenue sources is used, including general revenues from property taxes, sales

taxes, bridge and tunnel tolls, and dedicated highway taxes. Many local transit agencies have sought dedicated taxes for transit services. The Urban Mass Transportation Administration's Section 15 report for 1986 showed dedicated local assistance as 23% of all public operating assistance, compared with 28% for local general assistance, 11% for dedicated state assistance, 24% for state general assistance, and 14% for federal assistance.⁶

The appropriate levels of passenger fares relative to public financial assistance for transit systems have been the subject of much discussion and debate over the three decades or so of extensive public assistance for transit. Cervero⁷ conducted polls to determine the percentage of total social benefits that state and local officials thought accrued at the local, state, and federal levels and calculated that, on the basis of perceived distribution of benefits, users should bear 50% of transit costs, local governments 25%, states 12%, and the federal government 13%. In a 1981 study, the U.S. General Accounting Office (GAO) called for local areas to recover more of their operating costs from the farebox and to develop more equitable fare structures, using, for example, distance-based rather than flat fares. The GAO concluded that many simple fare structures were inequitable, because short-distance, inner-city, off-peak trip makers were paying more per mile than suburban work-trip makers.⁸

IMPACTS OF GOVERNMENT SUPPORT CHANGES

Assessments of the impacts of government support for transit operating expenses, particularly federal operating aid, have been controversial. Pickrell⁹ concluded that, although there was little evidence that federal operating assistance aggravated historical declines in transit operating and financial performance, the persistence of these declines compromised the effectiveness of federal aid in promoting the goals of service expansion, ridership increases, and fare reductions. He estimated that, of the federal operating aid provided over the period from 1975 to 1984, 42% went to offset higher costs of existing services, 26% for new services, 24% for replacing fare revenues, and 8% for other purposes. He attributed these impacts to rising labor expenses, declining labor productivity, expansion into difficult-to-serve markets, and fare reductions for commuters who would have continued to use the service at higher fares.

By comparison, a 1985 analysis by the American Public Transit Association (APTA)¹⁰ estimated that transit performance and productivity actually stabilized and improved over the period from 1975 to 1980, following the inception of federal operating aid. This analysis showed favorable trends in terms of real expenses/passenger, passengers/employee, passengers/vehicle-mi, vehicle-mi/employee, and stabilization in real expenses per vehicle-mi. APTA designed its study to test the hypothesis advanced by transit critics that federal aid actually caused a decline in transit performance and productivity. Based on comparison of the periods 1970 to 1975 and 1975 to 1980, APTA concluded that the reverse may be true. The period in which transit performance and productivity increased, according to APTA's analysis, was coincident with the initiation and increase of federal operating assistance to transit.

In its 1988 report to Congress, the Urban Mass Transportation Administration

(UMTA)¹¹ concluded that the federal assistance program, in partnership with state and local assistance, "has made considerable progress in restoring the nation's transit infrastructure." UMTA pointed out that "the nation's bus fleet has been modernized, the needed support facilities have been provided to service bus fleets, a number of new rail systems have been built" and "the older rail systems, built before the advent of the UMTA program, are being modernized."

UMTA also concluded in its 1988 report, however, that transit operating costs per passenger had increased substantially in real terms over the 20-year period of the UMTA program due to declining labor productivity, relatively high employee compensation, extension of service farther into low-density suburban areas, and ownership of rolling stock well in excess of peak requirements. The report also concluded that "the industry has not maximized the benefits of [the] capital investment" provided under the UMTA program. Among several reasons cited for "reduced efficiency in the use of the capital funding provided" were attempting to serve some peak demand that could be served more economically by ridesharing or private-sector operators; focusing too much on capital expansion and not enough on maintenance and modernization of existing equipment; and "reluctance to consider alternative forms of service provision, such as busways, timed transfers, paratransit, and competitive procurement of services.".

SUPPORT IN NONURBANIZED AREAS

Various forms of public assistance also have been evolving over recent years in nonurbanized areas with populations less than 50,000. In 1978 a new Section 18 was added to the federal Urban Mass Transportation Act to provide funding for nonurbanized areas. In addition, Section 16(b)2 of the act, added in 1970, has provided capital assistance for services for elderly and disabled persons. The combination of services for nonurbanized areas and for elderly and disabled residents of both urbanized and nonurbanized areas is sometimes categorized under the heading of "community transportation." In a 1986 study, Rural America¹² reported that around \$2 billion was being devoted annually to these services. Only 7% of these funds came from UMTA, however; 53% came from other federal agencies such as the Department of Health and Human Services, 16% came from state governments, and the remaining 24% came from local sources, including the farebox. Rural America estimated that community transportation services account for approximately 500 million one-way trips each year, at an average cost of \$3.80.

Whereas in urbanized area transit systems farebox and other revenue account for over 40% of total general revenue (excluding capital assistance), in nonurbanized area public transportation systems farebox and other system revenue account for less than 30% of the total.¹³ Such systems are much more dependent on operating assistance from the federal, state, and local governments, which provide approximately equal shares of the total public assistance required. The level of support for nonurbanized area transit has continued to be quite strong in the U.S. Congress, with Section 18 program funding having been sustained at around \$75 million per year. In addition, a

new \$5 million per year technical assistance program was initiated in 1987. The low levels of cost recovery from the farebox make these nonurbanized systems quite dependent on public financial assistance, however, and rather vulnerable to any cutbacks that may occur due to budget pressures at any of the three government levels.

THE DIVERSE TRANSIT INDUSTRY

In its compendium of national urban mass transportation statistics for 1986, UMTA reported that the transit industry operates over 60,000 vehicles: 42,000 buses, 7700 rapid rail cars, 560 streetcars, 500 trolleybuses, 3900 commuter rail cars, and 6200 demand-responsive and other vehicles. Much of the service provided by the smaller vehicles is omitted from the statistics collected by UMTA: the statistics collected deal primarily with conventional bus and rail systems. Motor bus services dominate the conventional systems, accounting for almost 80% of the vehicles, over 70% of the vehicle-miles, 68% of the passengers, and 54% of the passenger-miles. The 19 largest motor bus systems make up only 5% of the 379 bus systems, but account for over 50% of the bus-miles of service, 67% of the passengers, and 64% of the passenger-miles.

Of the 438 transit systems reporting to UMTA, only 10 (or 2%) had over 1000 vehicles. Over 60% of the systems operated fewer than 50 vehicles, and over 90% operated fewer than 250 vehicles. These figures indicate that the transit industry comprises a small number of rather large systems together with a large number of very much smaller systems. For this reason, aggregate statistics on the transit industry tend to be dominated by the characteristics of the larger systems and often mask completely the characteristics of the smaller systems. Almost 60% of all the conventional passenger-miles served in the nation are accounted for by the three largest systems: New York, Chicago, and San Francisco—Oakland, with New York alone accounting for over 40%.

This diversity in the size of transit systems complicates government funding. Based on ridership alone, resources invested in the largest systems may have greater impact. The services in the smaller areas, however, are of major importance to those areas. Although they may be considerably more expensive to provide on a per-ride basis, such systems fill a social need and have considerable local and congressional support.

REASONS FOR GOVERNMENTAL SUPPORT

In assessing the appropriateness of alternative financing schemes for transit, it is important to keep in mind the basic reasons or purposes for which transit is used. In its 1988 report to Congress, UMTA noted that urban-area residents use transit for one of the following two reasons: because transit offers a more convenient or economical service for peak-hour commuting than the alternatives, or because they are without immediate access to an automobile and need transit to provide their basic mobility. The first group of users resides primarily in larger urbanized areas where the congestion and out-of-pocket costs of using an automobile make transit an attractive option for the work trip. The second group of users reside in urban areas of all sizes,

but make up a larger share of transit trips in the medium and smaller areas.

Current transit financing schemes have grown up over several decades, often starting out as stopgap measures to address short-term problems, such as unexpected growth in annual operating deficits or a worrisome deterioration in the condition of transit capital equipment. The 1990s seem likely to be a period of increasing budget stringency at all levels of government, which will require greater scrutiny of all public assistance programs. The level and type of public transit financing may depend to a greater degree than in the past on how well transit is serving the basic purposes for which public funding is being provided. Several independent assessments of current financing arrangements have found them to be falling short of meeting their objectives for a variety of reasons having to do with the structure and administration of the assistance programs.¹⁴ A careful reassessment of the purposes and performance of public assistance programs for transit will be needed if a strong case is to be made for sustaining these programs in the challenging budget climate of the 1990s.

CURRENT ISSUES

Public transportation systems play important roles in the transportation systems of virtually all U.S. cities, though, as previously discussed, these roles vary considerably with city size and urban form. In very large cities with historically strong central areas, like New York, Chicago, and San Francisco, rail and bus transit systems provide much of the capacity for downtown-oriented travel, accounting for over half of all daily work trips to and from the central core. In medium and smaller urban areas, transit serves much lower proportions of trips, but still provides an important source of mobility for urban residents, particularly those without convenient access to an automobile. Many of the smallest urban areas with little or no fixed-route transit rely instead on various forms of paratransit, including carpools, shared taxis, and minibuses. Such paratransit services also play an important role in larger urban areas, to supplement fixed-route transit in high-density areas and to provide substitute services for low-density travel and for special user groups unable to use conventional transit.

PERFORMANCE EFFECTS ON FINANCIAL SUPPORT

Despite well-known and substantial benefits derived from public transit, public assistance programs for transit have been challenged continually throughout their over 30 years of existence as not adequately meeting expectations. The disappointing performance of transit financing programs can be attributed in part to unrealistic goals that grew up around the various programs, including reviving decaying downtown areas, reducing air pollution, conserving energy, serving the travel needs of the disabled, and reducing traffic congestion. While public transit programs can contribute to the achievement of these goals, other supporting measures must also be enacted, such as

the elimination of parking subsidies, regulation of the use of congested roads, implementation of high-occupancy vehicle lanes, higher fuel taxes, and land-use policies that promote higher-density development in transit corridors and around transit stations. In countries like Canada that have enacted such measures, mass transit systems have performed much better.

The disappointing performance of transit financing programs must also be attributed, however, to inappropriate governmental policies and programs.¹⁵ The large capital component of the federal transit program has distorted local decision making toward capital-intensive transit systems that qualify for federal assistance. This distortion has led to the neglect of potentially more cost-effective strategies, such as the provision of high-occupancy lanes for both transit and other high-occupancy vehicles and the greater use of private firms that can supply their own capital equipment, such as taxicab companies and private bus and van operators. Although many of the larger rail transit and bus operations were badly in need of capital assistance and made good use of the UMTA program, political pressures at all levels of government led to some notably poor transit investments, from overly expensive new heavy rail lines in some larger cities to overcapitalized bus fleets and maintenance facilities in many medium and small urban areas. Even the public acquisition of private bus companies facilitated by the UMTA program can be questioned: simply contracting with these or other competing companies for specified services might well have been more cost effective.

PROVIDER-SIDE VERSUS USER-SIDE SUBSIDIES

Another characteristic of current financial assistance programs that limits their potential effectiveness is that they are almost always administered in the form of provider-side subsidies. With provider-side subsidies, funding is disbursed directly to transportation providers for offering services and fare policies that are specified by the funding agency. An alternative approach, user-side subsidies, permits qualified users to purchase transportation vouchers at prices substantially below the value of the vouchers to the transportation providers.¹⁶ The users can exchange the vouchers for the transportation services of their choice, and the providers of the chosen services can redeem the vouchers with the funding agency at values agreed upon in advance. This latter approach encourages competition between providers and tailoring of service offerings to meet the preferences of the users. User-side subsidies have been used extensively to support specialized door-to-door services for elderly and disabled persons in cities like Milwaukee and San Diego and for services to the general public in a few smaller cities like Santa Fe, New Mexico, and Danville, Illinois. User-side subsidies have also been used to provide additional fare discounts to selected users on conventional transit systems, though for reasons of administrative convenience rather than to stimulate competition and service diversification.

Experience to date with user-side subsidies suggests that users can obtain high-quality services from competing providers and that diversity in service offerings and fares is encouraged. Some administrative challenges may be encountered, however, in

reimbursing providers and guarding against fraud. Experience with provider-side subsidies, the most common approach for public transportation, suggests that, although administration of the subsidy funds is relatively straightforward, competition between providers is very limited or nonexistent, and serious concerns arise with regard to service costs and efficiency. Both approaches seem likely to continue to be employed to varying degrees in the disbursement of public assistance funds for public transportation.

PRIVATE SECTOR SUPPORT

In the late 1980s, the federal government has focused much of its policy development effort in public transportation on promoting greater private sector participation in the financing and operation of transit services. In large part, this initiative was modeled on the rather ambitious privatization programs undertaken in the United Kingdom during the early 1980s, which restructured the ownership and operation of public transportation and other industries throughout the country. In the United States, the scope of privatization efforts by the federal government was limited by the strong state and local government role in public transportation decision making, and by the fact that the UMTA program has within it several structural features that tend to work against privatization. Local governments that sold off transit assets acquired using federal funds would have had to return the federal share of the proceeds to the U.S. Treasury, for example, and Section 13(c) of the Urban Mass Transportation Act, along with various state and local laws and collective bargaining agreements, essentially precludes any form of privatization that would worsen the condition of existing mass transit employees.

As the various implications of privatization strategies unfolded, the UMTA initiative shifted away from the notion of private ownership as pursued in the United Kingdom and toward the concept of greater competition in service delivery. Under this concept, local transit officials were required by UMTA regulation to consider private sector providers whenever new or substantially restructured services were under consideration. Procedures were developed for using UMTA capital assistance funds to pay for the depreciation and financing costs of privately owned equipment being used in the provision of publicly assisted services. Procedures were also developed for making fair cost comparisons between public and private carriers bidding on the same set of services. Some cities, such as Los Angeles and Miami, undertook major efforts to involve private operators, and significant initial cost savings were reported in several locations. Over time, privately owned and operated transit services may gradually increase their share of the public transit market, and the pressure of actual or threatened competition will likely stimulate efficiency improvements in publicly owned and operated services.

Another important dimension to the privatization initiatives of the federal government is the renewed emphasis on the participation of the private sector in the financing of public transportation. It has long been recognized that private land owners and developers benefit from major transit investments located close to their properties.

There have been a number of interesting case examples of the private sector contributing funding over and above farebox revenues to help support transit services from which they will benefit substantially. Examples include substantial private donations toward the rehabilitation of San Francisco's cable car system, \$12 million in annual revenue from development leases around the rail stations of the Washington Metropolitan Area Transit Authority, and special benefit assessment districts in Denver, Miami, and Los Angeles. In Tampa and Pittsburgh, private developers have undertaken the provision of transit infrastructure to link their developments to other city activities. In New York, extensive private sector participation has been obtained in the rehabilitation of the Times Square subway station.

In providing up to 80% of the costs of major transit capital projects, the UMTA program has provided little incentive for local agencies to seek private cost-sharing arrangements for these projects. Recent UMTA guidance suggesting that preference will be given to projects seeking a lower federal share will tend to encourage and reward efforts to involve private financial participation in major projects. Although there is little evidence to suggest that private sector financing arrangements can in themselves underpin major new transit investments, as occurred for example with turn-of-the-century streetcar systems, there is clearly potential for public-private costsharing arrangements that match the cost burdens of these investments more closely to the benefits that they generate. Long-range transit investments are more likely to be feasible in the future if they are closely related to land-use policies and partly funded by *value capture* policies that tap part of the land-value appreciation for the transit infrastructure costs.

A further aspect of private sector financing that has been of significant benefit to a number of larger transit agencies is the use of tax-exempt and industrial development bonds and the use of safe-harbor leasing provisions. While these provisions were somewhat restricted in the 1986 Tax Act, under certain conditions they are still available to transit agencies. With regard to safe-harbor leasing, for example, UMTA has been encouraging transit agencies to consider "cross-border leasing," under which transit equipment would be leased from owners outside the United States who would receive tax benefits in their own countries. Agencies in San Diego, California, and New Jersey have concluded such arrangements. The future of these kinds of benefits will be largely determined by federal tax policies, which are likely to be under continual review as the Congress and the administration struggle to get the federal budget deficit under control.

LOCALLY SPONSORED SERVICES

One form of diversification and competition in the financing and operation of public transportation that preceded the federal initiative of the mid-1980s is the growth of locally sponsored services in lieu of services provided by the regional operator. The Washington, D.C., metropolitan area was a leader in this development, when Montgomery County, Maryland, and then Fairfax County and the City of Alexandria, Virginia, established their own local services with smaller vehicles and less restrictive

labor arrangements than the regional carrier. While cost savings were an important consideration in these developments, the ability to make local decisions independently of the constraints of the regional system was also important. These systems have begun to contract out some of their services to private operators, although they are primarily publicly owned and operated. None of these systems uses federal funds, since all those funds are needed to support the regional carrier, and there is no point in the local systems assuming all the administrative burdens and requirements associated with the federal funding program. If federal funds continue to decline as a share of the total public funding for public transportation, more metropolitan areas are likely to follow the example of the Washington area in developing their own locally financed and operated services to supplement regional services.

LAND USE AND VALUE CAPTURE

Land use determinations tied to developing or improving transit service offer opportunities to enhance transit financing in many areas. This can take many forms—from rental income from a newsstand at a bus timed transfer station to partial income from a multimillion dollar shopping center with an integrated rail station, as found in Atlanta, Toronto, and Montreal. Increasingly, transit systems are recognizing these opportunities for *value capture* in developing capital programs. The possibilities are as broad as the enterprising organization can implement through legislation, land-use regulations, planning policies, private cooperation, and local support.

Perhaps the most important issue for the future of transit financing lies in the evolving land-use patterns and travel demand in the nation's urban areas. A continuation of the patterns of the past three decades will see the market for conventional fixed-route transit services erode further, with the share of urban travel served by transit shifting more and more to private automobile and more flexible transit modes, such as suburban minibus systems and car- and vanpool services. Under these conditions, the constituency for transit funding will also weaken, and the task of maintaining historical shares of public funding for transit will become increasingly difficult. At the same time, cost pressures will continue to escalate, with new government mandates to provide fully accessible transit to disabled persons, to provide paratransit services to those unable to use accessible transit services, and to reduce emissions from transit vehicles as part of the national effort to improve air quality. If transit is to make a strong case for greater public financial support, the benefits of transit services will have to be convincingly articulated, and the criticisms leveled at transit operating efficiency will have to be effectively countered. In addition,

If transportation facilities are viewed as an essential utility, similar to sewer, water, or other public services, then they should be constructed as an integral element of any new land development venture. Accordingly, government officials are examining how to extract funds from developers that will help to pay for transportation facilities. Local communities, who are increasingly being asked to bear financial responsibility for providing infrastructure, are finding new ways to finance these improvements by imposing fees on developers. Private and public cooperation is emerging that involves techniques such as special assessment districts,

transportation utilities, exactions, and public-private equity arrangements. These techniques are not panaceas, and each has positive and negative features.

Other nonuser fees have been utilized for transportation projects. These are general revenue items such as taxes on income, sales, and property. Revenue is also raised through lotteries and special fees. Many of these fees have been allocated for local highway improvements where there is a linkage between transportation and land access.¹⁶

FUTURE PROSPECTS

In 1991 the federal surface transportation legislation will have to be reauthorized. The Interstate Highway System that has been the centerpiece of the federal transportation program since mid-1950 is nearing completion, and the continued participation of the federal government in the surface transportation system will have to be justified on somewhat different grounds. This reauthorization provides an opportunity for all the interested parties to reexamine the basic structure of the federal program that has evolved over the past 30 years and to develop a new structure suited to the needs and priorities of the 1990s and beyond. Although federal funds account for only around 25% of all funding for highways and public transportation, the federal program has had a far-reaching effect on all transportation expenditures and on the local land-use patterns that have evolved around federally funded transportation facilities. Decisions made on the federal program during 1991 will set the overall framework for state and local expenditures on both highways and public transportation and will greatly influence the future role of public transportation in the nation's urban areas.

In recognition of the importance of the federal reauthorization, a number of national associations and interest groups have been developing formal position statements for use in testimony and dialogue as the reauthorization process moves forward. The American Public Transit Association (APTA) has developed a report entitled *Transit 2000* that outlines the transit industry's views and positions on the federal reauthorization.¹⁸ This document argues that "current highway and transit programs do not have the necessary responsiveness nor the flexibility to address current and emerging needs and problems," and that "greater flexibility should be allowed in the use of federal funds and a stronger multimodal approach to planning, funding, and decision making must be established." Other key recommendations of the APTA report include: "Federal transportation policies and programs should require closer integration of transportation investments and land use decisions in order to provide an environment that is conducive to and encourages increased provision and use of high-occupancy shared-ride services," and "The concept of transit should be broadened to encompass and promote increased availability and use of transit and other high-occupancy, shared-ride services in order to better serve diverse travel needs."

Many of the key themes identified in the APTA *Transit 2000* report also appeared

in the National Transportation Policy issued by Secretary Skinner of the U.S. Department of Transportation early in 1990.¹⁹ The concepts of flexibility in federal funding and closer integration of transportation investments with land-use decisions were particularly prominent in the secretary's policy. Whereas APTA's report called for "substantial additional federal funding . . . for public transportation," the secretary's policy called for a greater share of the financial burden to be borne by the state and local governments and the private sector. The level of federal funding to be provided for all forms of transportation will be the subject of considerable debate as the reauthorization progresses, with most of the transportation interest groups calling for increases in federal funding, and the congress and the administration currently more concerned about narrowing the federal budget deficit.

While it is too early to judge just what the federal reauthorization will hold for public transportation, it seems likely that the increased costs associated with federal mandates, combined with the traditional pressures for efficiency at the state and local levels and the continued trend toward suburban development of both housing and employment, will present major financing challenges for public transportation systems. It will be necessary for policy makers and managers to examine and utilize to the maximum extent possible all the many promising financing techniques, both traditional and nontraditional, that have been identified and used successfully over recent years. Among the more important strategies are the following:

- Seek opportunities to link transit investment and rehabilitation programs to land-use policies and decisions in ways that will provide for joint public/private financing arrangements.
- Provide more flexibility in the structure and administration of public subsidy programs to encourage and reinforce cost-effective policies at the local level.
- Implement fare policies that maximize the contributions from the farebox (such as distance-based fares and peak-hour surcharges) without jeopardizing the primary transportation objectives to be served.
- Utilize cost-saving measures such as contracting out to private sector operators services they can provide more efficiently.
- Encourage the provision of complementary and even competing services (such as car- and vanpools for peak-hour commuters) that can reduce the more costly demands on conventional transit.
- Promote the development of transit-supportive policies such as high-occupancy vehicle lanes, dense development along transit lines, and the elimination of the preferential tax treatment of employer-subsidized parking.
- Employ user-side subsidies to promote special service discounts for selected groups, particularly where additional subsidy payments can be obtained from nontraditional funding sources.
- Strengthen the case for the use of traditional funding sources at the federal, state, and local levels by demonstrating convincingly how public transportation can contribute to the achievement of the various policy goals of these levels of government, including improved mobility for both captive and choice riders, reduced demand on congested road facilities, and an improved quality of life in urban areas.

SUMMARY

Since the 1960s, a wide variety of financing sources and mechanisms has been identified and utilized to support public transportation. The steady decline in the portion of transit revenues derived from passengers has increased the pressure on transit policy makers and managers to secure revenues from other sources, including the federal, state, and local governments, and from joint arrangements with the private sector. The declining share of funding provided by the federal government over the past decade has been offset to date by increased shares contributed by the state and local governments, with the states now contributing significantly more to public transportation funding than the federal government. Increasing costs due to government mandates and fiscal stringency at all levels of government suggest that the 1990s will bring major financing challenges for the transit industry.

In the past, public financial support for transit has frequently been initiated in response to some escalating crisis or problem, such as an alarming deterioration in the condition of the transit capital stock or an unexpected increase in the operating deficits of individual systems due to cost increases or ridership declines. Over time, transit assistance programs have gradually shifted away from this crisis mode and toward more proactive approaches that measure and critique the performance of both transit operations and the financial assistance programs themselves. Major efforts have been made to improve transit operating performance and to restructure financial assistance programs to promote the most efficient decisions and policies at the transit-agency level. Much can still be done, however, to improve transit operating performance and to make financial assistance programs more effective.

Many of the prescriptions for more effective transit financing and operations developed over recent years offer real promise: better linkage of transit with land use, greater flexibility in the structure and administration of public financing programs, more rational fare policies, contracting out certain services, encouraging other cost-effective high-occupancy modes, promoting transit-supportive policy measures, employing user-side as well as provider-side subsidies, and strengthening the case for traditional funding sources. As we enter the 1990s, we will need more widespread implementation of these approaches if we are to improve the financial condition and operating performance of the nation's public transportation systems.

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EXERCISES

- 15-1 What prompted the reduction in federal operating subsidy programs?
- 15-2 What are the pros and cons of user-side versus provider-side subsidies?
- 15-3 What are the financing pressures in your area?
- 15-4 What is the current status of the national program for federal funding for transit programs?
- 15-5 Do you feel transit users should pay more for services? Why? For all types of services?
- 15-6 What are the problems of implementing a fare/distance-traveled system for a conventional fixed-route bus system?
- 15-7 Discuss congestion pricing strategies that might be effective in reducing congestion in a major urban area.
- 15-8 Of the strategies listed under "Future Prospects," which might best be applied to your local urban transit system? Why?

